



NEWCASTLE MUNICIPALITY

TARIFF POLICY 2019/2020

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1. Preamble

In terms of Section 62 (1) of the Municipal Finance Management Act (MFMA) the Accounting Officer of a Municipality is responsible for managing the financial administration of the municipality and, in terms of S62 (1) (f), must for this purpose take all reasonable steps to ensure – “that the municipality has and implements a tariff policy referred to in Section 74 of the Municipal Systems Act” (MSA).

In giving effect to S74 (1) of the Municipal Systems Act, the municipality adopts the following as the framework tariff policy within which the municipal council must adopt various policies.

2. Definitions

In this policy:

“**municipal area**” means the area in respect of which the municipality has executive and legislative authority as determined by the constitution and the National legislation and the area as demarcated by the Demarcation Act (Act 27 1998);

“**municipal council**” means a municipal council referred to in section 157 of the Constitution.

“**indigent households**” means those households in the municipal area whose monthly household income is no more than an amount as determined by Council annually and are included in the indigent register.

“**the Act**” means the Municipal Systems Act 2000, (Act 32 of 2000) (MSA).

3. Introduction

One of the primary functions of a local authority is to provide services to the people within its municipal area. The funding of these services is made possible by levying property taxes, charging for municipal services rendered and levy collection through business levies. Tariffs represent the charges levied by Council on consumers for the utilization of services provided by the Municipality. These are calculated dependent on the nature of service being provided.

They may be set in a manner so as to recover the full cost of the service being provided or recover part of the costs or bring about a surplus that can be utilized to subsidise other non-economical services.

4. Tariff principles

- 4.1 Users of municipal services must be treated equitably. The various categories of customers must pay the same charges based on the same cost structure¹.
- 4.2 The amount payable must be in proportion to usage².
- 4.3 Indigent households must have access to basic services through lifeline tariffs or direct subsidisation in accordance with the Integrated Development Plan³.
- 4.4 Tariffs must reflect the total cost of the service⁴.
- 4.5 Tariffs must be set at a level that facilitates the sustainability of the service.⁵
Sustainability can only be achieved when:
 - (i) Cash inflows cover cash outflows. This means that sufficient provision for working capital and bad debts must be made.
 - (ii) Access to the capital market is maintained. This can be achieved by providing for the repayment of capital, maintaining sufficient liquidity levels and making profits on trading services.
- 4.6 Provision must be made in appropriate circumstances for a surcharge on a tariff. This will be necessary for major breakdowns in infrastructure and periods of droughts when a restriction of usage is required⁶.
- 4.7 Efficient and effective use of resources must be encouraged. Penalties to promote the economic use of services as well as the conservation of water may be introduced.
- 4.8 The extent of subsidisation of tariffs should be fully disclosed.
- 4.9 On closure of the municipal account, a charge for the final reading shall be levied thereon.
- 4.10 The tariff structure of Newcastle may make provision for the differentiation between different categories of customers, debtors, service providers, services and geographical areas as long as the differentiation does not amount to unfair discrimination⁷. Where there is a substantial difference between the standard of services provided within a specified category, the Council can determine differentiated tariffs within the specified category.
- 4.11 Municipal use will be deemed an exempt service.

¹ Section 74(2) of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000);

² Section 74(2) (a) of Act 32 of 2000.

³ Section 74(2) (c) (i) and (ii).

⁴ Section 74(2) (d)

⁵ Section 74(2) (e)

⁶ Section 74(2) (f)

⁷ Section 74(3)

5. Expenditure classification and cost elements

The Chief Financial Officer shall, subject to the guidelines of the Executive Committee of the Council, make provision for the following classification of services:

5.1 Trading services

These are services that the Council has classified as trading services and the tariffs have been compiled with the intention that the Council makes a profit on the delivery of the services. The consumption of the services is measurable and can be accurately apportioned to an individual consumer.

5.2 Economic services

These are services that the Council has classified as such and the tariffs have been compiled with the intention that the total costs of the services are recovered from customers. No surplus or deficit should be incurred.

5.3 Community services

These are services that the Council has classified as such and the tariffs have been compiled with the intention that the cost of the services cannot be recovered from public service charges. The service may be of a regulatory nature and the Council is usually unable to accurately determine the individual consumption.

5.4 Subsidised services

These are municipal services which are provided at an applicable rate which is less than the cost of actually providing the service, including services provided to customers at no cost. The cost of providing the service is usually such that it would not necessarily be affordable to the community.

5.5 Cost elements

The following cost elements will be used to calculate the tariffs of the different services:

- (i) *Fixed costs* are costs which do not vary with consumption or volume produced and which consist of the capital costs (interest and redemption) on external loans and or depreciation; whichever are applicable on the service and any other costs of a permanent nature as determined by the Council from time to time.
- (ii) *Variable cost*: These are costs that vary with consumption or volume produced and include all variable costs that have reference to the service.
- (iii) *Total cost* is equal to the fixed cost plus variable cost.
- (iv) *Flat rate*: This cost is calculated by dividing the total costs by volume used.

6. Tariffs

6.1 The tariffs are reviewed annually during the preparation of the budget and the proposed tariffs are presented to the community during the Council's budget consultative process prior to the approval of the final budget by the Council.

6.2 In setting service charges the Council shall:

- (i) accurately reflect costs to achieve economic efficiency;
- (ii) ensure equity and fairness between different types of consumers;
- (iii) utilise appropriate metering and supporting technology;
- (iv) be transparent; and
- (v) extend assistance to the poor by giving preference to single tariffs where possible.

6.3 In determining the type of tariff applicable to the type of service the Council may make use of the following four options or a combination of the same:

- (i) *Single tariff:* This tariff shall consist of a fixed cost per unit consumed. All costs will therefore be recovered through a unit charge at the level of breakeven consumption.
- (ii) *Cost related two to four part tariff:* This tariff shall consist of two to four parts. They are raised to cover the fixed and variable costs separately. The fixed costs are recovered by grouping certain components together and may be recovered by a fixed charge while the variable costs may be recovered by a unit charge per unit consumed.
- (iii) *Inclining block tariff:* This tariff is based on consumption levels being categorised into blocks, the tariff being determined and increased as consumption levels increase.
- (iv) *Declining block tariff:* This tariff is the opposite of the inclining block tariff and decreases as consumption levels increase.

7. Unit of measurement

The following units of measurement will, where possible, be used to determine tariffs:

7.1 Water

- (i) Cost per kilolitres consumed
- (ii) Basic/availability charge - based on the fixed cost associated with the service
- (iii) When consumption is not measured a flat rate will be applicable.
- (iv) When consumption cannot be read for a particular meter reading period, an estimate amounting to a 12 month average shall be levied on the account.

7.2 Electricity

- (i) Basic/availability charge - based on the fixed cost associated with the service
- (ii) Cost per kWh consumed
- (iii) Cost per Kilovolt-ampere (kVA)

- (iv) Maximum demand – Network demand charge and network access charge
- (v) When consumption is not measured a flat rate will be applicable.
- (vi) When consumption cannot be read for a particular meter reading period, an estimate amounting to a 12 month average shall be levied on the account.

7.3 Refuse removal

- (i) Bag removal
- (ii) Container Service
- (iii) Rental of containers
- (iv) Individual services as required

7.4 Sewerage

- (i) Per kilolitre of water consumption
- (ii) Per kilolitre of water consumption plus costs for strength of disposal.
- (iii) Basic/availability charge - based on the fixed cost associated with the service.

8. By-laws

The principle contained in this policy will be reflected in the various service by-laws as adopted and adjusted by Council from time to time.